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C O N F I D E N T I A L GUATEMALA 000178

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TAGS: [PREL](#) [ENRG](#) [ECON](#) [VZ](#) [GT](#)
SUBJECT: (C) GUATEMALA GIVING SERIOUS CONSIDERATION TO
PETROCARIBE DEAL

REF: GUATEMALA 104

Classified By: Ambassador James M. Derham for reasons 1.4 (b&d).

¶1. (C) Summary. Acting Foreign Minister Miguel Ibarra told us privately that Guatemala would likely sign a PetroCaribe deal with the GOV to meet a small percentage of Guatemala's energy needs. This initial agreement would allow the GOG to assess Venezuela's ability to meet its needs, while maintaining intact Guatemala's relationships with major international oil suppliers. The GOG would like to take advantage of the favorable terms the GOV is offering, but is unwilling to make political concessions, Ibarra said. A deal could be signed as soon as early March. End Summary.

¶2. (C) Acting Foreign Minister Miguel Angel Ibarra told Pol/Econ Couns February 19 that Guatemala would likely sign a small-volume, trial agreement with PetroCaribe. A GOV/PDVSA delegation, led by the Director General of PetroCaribe, had made a visit to Guatemala in early February which both sides had kept from public attention (reftel). While the Venezuelan side had been anxious for the GOG to make the political gesture of signing on to PetroCaribe immediately, and preferred to defer a detailed examination of Guatemala's energy needs until later, the GOG delegation had insisted on focusing on Guatemala's energy needs. No agreement had been signed, Ibarra said, but Venezuela's terms were favorable. The Petrocaribe delegation had offered to allow the GOG to pay for fuel oil via a mix of long-term, low interest loans and bartered agricultural goods. The GOG found those terms attractive, Ibarra said. The GOG would not set up its own state oil company, but would rather auction the Venezuelan oil to Guatemala's private distributors. (Note: There have been indications in the press that the GOG would set up a state oil company to receive Venezuelan deliveries.) Asked whether Guatemala had a facility in which to store Venezuelan oil deliveries, Ibarra said that it did, but that the facility would require some refurbishment.

¶3. (C) The GOG remained concerned that the GOV would attempt to exact political concessions as part of the deal, Ibarra said. Therefore, the GOG would first sign a trial agreement for supply of only 5,000 barrels of Guatemala's total daily requirement of 70,000 barrels. This would allow the GOG to test whether PDVSA would be a reliable supplier, and see what sort of political pressure the GOV might apply. The GOG would under no circumstances make political concessions, Ibarra said, and would maintain relationships with international commercial suppliers in the meantime. Ibarra acknowledged the potential downsides of signing any PetroCaribe agreement.

¶4. (C) MFA Director General Carlos Morales, who also participated in the meeting with the GOV/PDVSA delegation, offered further details during a separate, February 20 conversation with Pol/Econ Couns. Energy and Mines Minister Carlos Meany, who had led GOG participation in the meeting, had insisted on a detailed, almost day-long discussion of Guatemala's energy needs, frustrating the Venezuelans' rush to sign an agreement. Meany described Guatemala's current power sources and the relative costs of each. Most expensive was power purchased from Tampa Electric Co., a subsidiary of Teco Energy, which had signed a lucrative deal in the early 1990's to build a 78-megawatt, diesel-fueled generation plant, called Alborada. Per the terms of the agreement, Tampa receives \$21.5 million per year simply for maintaining its plant. Guatemala draws from the plant only at times of peak usage, as power supplied by the plant costs almost four times as much per unit as does hydro-electric power. (These high costs reflect both current world oil prices and the terms of Tampa's agreement with the GOG.) Minister Meany told the Venezuelans that for now he would be interested in having Petrocaribe provide only enough fuel oil to substitute Alborada's limited output. Meany has since been quoted in the press as saying that the GOG may try to buy out its contract with Tampa Electric, which is supposed to run through 2013. Only if the GOG is able to buy its way out of the Tampa contract would it then sign a PetroCaribe deal, Morales said. (Comment: We note that there is a significant discrepancy between Morales' stated understanding of the outcome of the meeting, and that of Ibarra, his superior at the MFA.)

¶5. (C) Morales said that the Venezuelan delegation had left displeased that the GOG had been unwilling to immediately

sign an agreement, as some other Central American countries had done. Nonetheless, the Venezuelans would return during early March to enter into a more detailed negotiation. The GOG perceives that a PetroCaribe deal could help meet two of its principal objectives, Morales said: it would furnish an urgently needed additional source of energy, and the GOV's willingness to receive payment in agricultural products would contribute to the Colom Government's objective of increasing market opportunities for small farmers. The GOG would purchase foodstuffs from small farmers' cooperatives for transfer to the GOV.

¶6. (C) Comment: Minister of Energy and Mines Meany previously told Embassy that there is presidential pressure to sign a PetroCaribe deal quickly. While some in the Colom Administration have concerns over embarking on this new commercial relationship with Caracas, others believe that the potential for addressing energy needs at low prices is worth the risk.
Derham